

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Colton Village	County St. Joseph
Fiscal Year End March 31, 2007	Opinion Date July 10, 2007	Date Audit Report Submitted to State August 31, 2007	

We affirm that:


We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☒ ☐ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>	GAS Report on Internal Control and Compliance	
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Norman & Paulsen, P.C.		Telephone Number 269-651-3228	
Street Address 127 W. Chicago Road		City Sturgis	State Zip MI 49091
Authorizing CPA Signature 		Printed Name Michael R. Wilson CPA	License Number 1101017570

VILLAGE OF COLON
ST. JOSEPH COUNTY, MICHIGAN

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

March 31, 2007

VILLAGE OF COLON

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INDEPENDENT AUDITOR'S REPORT

Village Council
Village of Colon, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Colon, Michigan, as of and for the year ended March 31, 2007, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Colon management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Colon, Michigan, as of March 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated July 10, 2007, on our consideration of the Village of Colon internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over the financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of the audit performed in accordance with Government Auditing Standards and should be considered in conjunction with this report in considering the results of our audit.

July 10, 2007

Norman & Paulsen, P.C.

VILLAGE OF COLON

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Village of Colon financial performance provides an overview of the Village's financial activities for the fiscal year ended March 31, 2007. Please read it in conjunction with the Village's financial statements.

Financial Highlights

The Village's overall financial position decreased by \$82,503 during the fiscal year ended March 31, 2007, which represents 2.4 percent of the net asset position at the beginning of the year. Included in the Village's total net assets of \$3,397,499 are the Sewer Disposal System Fund net assets of \$1,559,447 and the Water Supply System Fund net assets of \$1,349,656. The Sewage Disposal System's net assets decreased by \$33,763 and the Water Supply System's net assets decreased by \$65,358.

The Village's Governmental Funds reflected a total fund balance at March 31, 2007 of \$309,895, which was an increase of \$8,896 from the prior year end. Included in this increase was the General Fund which reflected an increase of \$32,301 and the Major Street and Local Street Funds which reflected a combined decrease of \$23,405.

The total Governmental Fund expenditures for the year ended March 31, 2007, amounted to \$672,828, of which \$283,081 (42 percent) was for public works; \$293,819 (44 percent) was for public safety; and \$74,195 (11 percent) was for general government.

Using This Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The Fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements by providing information about the Village's most significant funds.

VILLAGE OF COLON

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Village as a Whole

The following table shows, in a condensed format, the net assets as of the current year end and compared to the prior year end under the modified accrual basis of accounting:

(dollars presented in thousands)					
	Governmental Funds		Enterprise Funds		
	2007	2006	2007	2006	
Assets	\$ 355	\$ 457	\$ 5,233	\$ 5,442	
Liabilities	45	156	2,324	2,434	
Fund Equity					
Invested in capital assets, net of related debt	-	-	2,446	2,601	
Retained Earnings					
Restricted	-	-	66	64	
Unreserved	-	-	397	343	
Fund Balances					
Reserved	93	115	-	-	
Unreserved	217	186	-	-	
Total Fund Equity	\$ 310	\$ 301	\$ 2,909	\$ 3,008	

VILLAGE OF COLON

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows, in a condensed format, the net assets as of the current year end and compared to the prior year end as required by GASB 34 stated under the full accrual basis.

(dollars presented in thousands)

	Governmental Activities		Business-Type Activities	
	2007	2006	2007	2006
Current and other assets	\$ 485	\$ 491	\$ 484	\$ 428
Capital assets	<u>132</u>	<u>138</u>	<u>4,644</u>	<u>4,890</u>
Total assets	617	629	5,128	5,318
Long-term debt outstanding	88	97	2,199	2,289
Other liabilities	<u>41</u>	<u>60</u>	<u>20</u>	<u>21</u>
Total liabilities	129	157	2,219	2,310
Net assets				
Invested in capital assets, net of related debt	44	41	2,446	2,601
Restricted	194	239	66	64
Unrestricted	<u>250</u>	<u>192</u>	<u>397</u>	<u>343</u>
Total net assets	<u>\$ 488</u>	<u>\$ 472</u>	<u>\$ 2,909</u>	<u>\$ 3,008</u>

VILLAGE OF COLON

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows the changes of the net assets during the current year as compared to the prior year, under the modified accrual basis of accounting:

(dollars presented in thousands)

	Governmental Funds		Enterprise Funds	
	2007	2006	2007	2006
Revenue				
Taxes	\$ 366	\$ 300	\$ -	\$ -
Licenses and permits	9	8	-	-
State grants	218	221	-	-
Charges for services	52	39	390	392
Fines and forfeitures	6	4	-	-
Rents	-	-	22	22
Interest	5	4	9	7
Other	<u>26</u>	<u>13</u>	<u>12</u>	<u>7</u>
Total revenue	682	589	433	428
Program expenses				
General government	74	78	-	-
Public safety	294	304	-	-
Public works	283	201	-	-
Health and welfare	7	6	-	-
Recreation and cultural	2	2	-	-
Debt service	13	20	-	-
Sewer system	-	-	120	117
Water system	-	-	89	86
Depreciation	-	-	245	240
Interest expense	<u>-</u>	<u>-</u>	<u>78</u>	<u>80</u>
Total expenses	<u>673</u>	<u>611</u>	<u>532</u>	<u>523</u>
Excess (deficiency)	<u>\$ 9</u>	<u>\$ (22)</u>	<u>\$ (99)</u>	<u>\$ (95)</u>

VILLAGE OF COLON

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows, in a condensed format, the changes in net assets during the current year as compared to the prior year as required by GASB 34 stated under the full accrual basis of accounting.

(dollars presented in thousands)

	Governmental Activities		Business-Type Activities	
	2007	2006	2007	2006
Revenues				
Program revenues				
Charges for services	\$ 67	\$ 51	\$ 390	\$ 392
Operating grants and contributions	104	105	-	-
Capital grants and contributions	-	-	-	-
General revenues				
Property taxes	366	300	-	-
State shared revenues	119	120	-	-
Unrestricted investment earnings	6	5	9	7
Miscellaneous	23	9	34	29
Total revenues	685	590	433	428
Expenses				
General government	74	84	-	-
Public safety	298	312	-	-
Public works	283	201	-	-
Health and welfare	7	6	-	-
Recreation and cultural	2	2	-	-
Debt service	4	4	-	-
Sewer system	-	-	211	202
Water system	-	-	321	321
Total expenses	668	609	532	523
Change in net assets	<u>\$ 17</u>	<u>\$ (19)</u>	<u>\$ (99)</u>	<u>\$ (95)</u>

The Village's Funds

Our analysis of the Village's major funds begins on page 10, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Village as a whole. Major funds for the fiscal year ended March 31, 2007 include the General Fund and the Major Street and Local Street Funds.

The General fund pays for most of the Village's governmental services. The primary services include police protection services and administrative services related to general operations that support the primary services. The General Fund is funded primarily by property taxes and state shared revenues.

VILLAGE OF COLON

MANAGEMENT'S DISCUSSION AND ANALYSIS

General Fund Budgetary Highlights

As shown in the required supplemental information, the Village budgeted a decrease of \$43,098 in the original budget and a decrease of \$44,239 in the amended budget. Actual operating results ended up as an increase of \$32,301.

The original budget was amended to reflect an increase in expenditures of \$1,141.

The actual results ended the fiscal year better by \$76,540 compared to the amended budget.

Capital Assets and Debt Administration

During the year ended March 31, 2007, the total capital assets of the Village increased by \$24,040 for motor vehicle equipment which was paid for with operating funds. The capital assets of the Village decreased by \$10,000 for the disposal of motor vehicle equipment.

During the year ended March 31, 2007, the total debt obligations of the Village decreased by principal payments of \$98,908. Total debt obligations at March 31, 2007 amounted to \$2,286,713.

Contacting the Village's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Village office.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

VILLAGE OF COLON
STATEMENT OF NET ASSETS
MARCH 31, 2007

	<u>Primary Government</u>		
	<u>Governmental</u> <u>Activities</u>	<u>Business</u> <u>Type</u> <u>Activities</u>	<u>Total</u>
ASSETS			
Cash and investments	\$ 396,390	\$ 357,231	\$ 753,621
Receivables, net	73,438	57,829	131,267
Internal balances	2,982	(2,982)	-
Prepaid and other assets	12,545	5,776	18,321
Restricted assets	-	65,832	65,832
Capital assets - net	<u>131,663</u>	<u>4,644,522</u>	<u>4,776,185</u>
Total assets	617,018	5,128,208	5,745,226
LIABILITIES			
Accounts payable	36,065	-	36,065
Accrued and other liabilities	4,499	20,450	24,949
Debt obligations:			
Due within one year	9,538	95,000	104,538
Due in more than one year	<u>78,520</u>	<u>2,103,655</u>	<u>2,182,175</u>
Total liabilities	<u>128,622</u>	<u>2,219,105</u>	<u>2,347,727</u>
NET ASSETS			
Invested in capital assets, net of related debt	43,605	2,445,867	2,489,472
Restricted:			
Debt service	-	18,747	18,747
Water system maintenance	-	47,085	47,085
Road maintenance	189,655	-	189,655
Other purposes	4,875	-	4,875
Unrestricted	<u>250,261</u>	<u>397,404</u>	<u>647,665</u>
Total net assets	<u>\$ 488,396</u>	<u>\$ 2,909,103</u>	<u>\$ 3,397,499</u>

See accompanying notes to financial statements

VILLAGE OF COLON
STATEMENT OF ACTIVITIES
MARCH 31, 2007

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government				
Governmental activities:				
General government	\$ 74,267	\$ 51,582	\$ -	\$ -
Public safety	297,822	9,209	2,051	-
Public works	283,081	6,209	102,190	-
Health and welfare	6,600	-	-	-
Recreation and cultural	1,874	-	-	-
Interest on long-term debt	<u>4,351</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	667,995	67,000	104,241	-
Business-type activities:				
Sanitary sewer	210,653	154,522	-	-
Water	<u>321,341</u>	<u>235,626</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>531,994</u>	<u>390,148</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 1,199,989</u>	<u>\$ 457,148</u>	<u>\$ 104,241</u>	<u>\$ -</u>

General revenues:
 Property taxes
 State shared revenues
 Unrestricted investment earnings
 Miscellaneous

Total general revenues

CHANGE IN NET ASSETS

NET ASSETS - BEGINNING OF YEAR

NET ASSETS - END OF YEAR

See accompanying notes to the financial statements

Net (Expense) Revenue and Changes in Net Assets

Primary Government

<u>Governmental</u> <u>Activities</u>	<u>Business</u> <u>Type</u> <u>Activities</u>	<u>Total</u>
\$ (22,685)	\$ -	\$ (22,685)
(286,562)	-	(286,562)
(174,682)	-	(174,682)
(6,600)	-	(6,600)
(1,874)	-	(1,874)
<u>(4,351)</u>	<u>-</u>	<u>(4,351)</u>
(496,754)	-	(496,754)
-	(56,131)	(56,131)
<u>-</u>	<u>(85,715)</u>	<u>(85,715)</u>
-	(141,846)	(141,846)
(496,754)	(141,846)	(638,600)
366,371	-	366,371
118,395	-	118,395
5,295	8,483	13,778
<u>23,311</u>	<u>34,242</u>	<u>57,553</u>
<u>513,372</u>	<u>42,725</u>	<u>556,097</u>
16,618	(99,121)	(82,503)
<u>471,778</u>	<u>3,008,224</u>	<u>3,480,002</u>
<u>\$ 488,396</u>	<u>\$ 2,909,103</u>	<u>\$ 3,397,499</u>

FUND FINANCIAL STATEMENTS

VILLAGE OF COLON

GOVERNMENTAL FUNDS BALANCE SHEET MARCH 31, 2007

	General Fund	Major Street Fund	Local Street Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 180,551	\$ 37,446	\$ 51,356	\$ 269,353
Accounts receivable	1,597	500	-	2,097
Due from other governmental units	53,843	11,864	5,634	71,341
Due from other funds	4,254	-	-	4,254
Prepaid expenditures	<u>8,055</u>	<u>160</u>	<u>160</u>	<u>8,375</u>
Total assets	<u>\$ 248,300</u>	<u>\$ 49,970</u>	<u>\$ 57,150</u>	<u>\$ 355,420</u>
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts payable	\$ 36,065	\$ -	\$ -	\$ 36,065
Accrued liabilities	3,765	311	234	4,310
Due to other funds	<u>12</u>	<u>2,998</u>	<u>2,140</u>	<u>5,150</u>
Total liabilities	39,842	3,309	2,374	45,525
FUND BALANCE				
Reserved for police training	1,470	-	-	1,470
Reserved for drug enforcement	3,405	-	-	3,405
Reserved for road maintenance	88,218	-	-	88,218
Unreserved, undesignated	<u>115,365</u>	<u>46,661</u>	<u>54,776</u>	<u>216,802</u>
Total fund balance	<u>208,458</u>	<u>46,661</u>	<u>54,776</u>	<u>309,895</u>
Total liabilities and fund balance	<u>\$ 248,300</u>	<u>\$ 49,970</u>	<u>\$ 57,150</u>	<u>\$ 355,420</u>

See accompanying notes to financial statements

**VILLAGE OF COLON
GOVERNMENTAL FUNDS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
MARCH 31, 2007**

Total governmental fund balances \$ 309,895

Amounts reported for governmental activities in the
statement of net assets are different because:

Capital assets used in governmental activities
are not financial resources and therefore are
not reported in the funds.

Governmental capital assets	\$ 170,300	
Less accumulated depreciation	<u>(76,719)</u>	93,581

Certain liabilities are not due and payable in
the current period and therefore are not
reported in the funds.

Notes payable	(88,058)
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Internal service funds are used by management
to charge the costs of certain activities to
individual funds. The assets and liabilities
of the internal service funds are reported with
governmental activities.

Net assets of the internal service funds	<u>172,978</u>
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Net assets of governmental activities	<u><u>\$ 488,396</u></u>
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See accompanying notes to financial statements

VILLAGE OF COLON

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
YEAR ENDED MARCH 31, 2007**

	General Fund	Major Street Fund	Local Street Fund	Total Governmental Funds
REVENUE				
Taxes	\$ 366,371	\$ -	\$ -	\$ 366,371
Licenses and permits	9,209	-	-	9,209
State grants	120,446	66,302	31,401	218,149
Charges for services	51,582	-	-	51,582
Fines and forfeitures	6,209	-	-	6,209
Interest	3,554	503	229	4,286
Other	<u>13,395</u>	<u>7,503</u>	<u>5,020</u>	<u>25,918</u>
Total revenue	570,766	74,308	36,650	681,724
EXPENDITURES				
Legislative	26,535	-	-	26,535
General government	47,660	-	-	47,660
Public safety	293,819	-	-	293,819
Public works	148,718	85,128	49,235	283,081
Health and welfare	6,600	-	-	6,600
Recreation and cultural	1,874	-	-	1,874
Debt service	<u>13,259</u>	<u>-</u>	<u>-</u>	<u>13,259</u>
Total expenditures	<u>538,465</u>	<u>85,128</u>	<u>49,235</u>	<u>672,828</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	32,301	(10,820)	(12,585)	8,896
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	-	-	18,000	18,000
Transfers to other funds	<u>-</u>	<u>(18,000)</u>	<u>-</u>	<u>(18,000)</u>
Total other financing sources (uses)	<u>-</u>	<u>(18,000)</u>	<u>18,000</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	32,301	(28,820)	5,415	8,896
FUND BALANCE - BEGINNING OF YEAR	<u>176,157</u>	<u>75,481</u>	<u>49,361</u>	<u>300,999</u>
FUND BALANCE - END OF YEAR	<u>\$ 208,458</u>	<u>\$ 46,661</u>	<u>\$ 54,776</u>	<u>\$ 309,895</u>

See accompanying notes to financial statements

VILLAGE OF COLON
GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2007

Net change in fund balances - total governmental funds	\$	8,896
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Amounts reported for governmental activities in the
statement of activities are different because:

Governmental funds report capital outlays as expenditures.
However, in the statement of activities, the cost of those
assets is depreciated over their estimated useful lives.

Expenditures for capital assets	-	
Depreciation expense	(5,908)	

Loan proceeds provide current financial resources to
governmental funds in the period issued, but issuing debt
increases long-term liabilities in the statement of net
assets. Repayment of loan principal is an expenditure in
the governmental funds, but the repayment reduces long-
term liabilities in the statement of assets.

Proceeds from debt obligations	-	
Principal payments on debt obligations	8,908	

Internal service funds are used by management to charge
the cost of certain services to individual governmental
and business-type funds. The net revenue (expense) of
the internal service funds are allocated to governmental
and business-type activities.

Net change from internal service funds related to governmental activities		<u>4,722</u>
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Change in net assets of governmental activities	\$	<u><u>16,618</u></u>
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See accompanying notes to financial statements

**VILLAGE OF COLON
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
MARCH 31, 2007**

	Sewage Disposal System Fund	Water Supply System Fund	Total	Motor Pool Internal Service Fund
ASSETS				
CURRENT ASSETS				
Cash	\$ 219,381	\$ 2,317	\$ 221,698	\$ 127,037
Investments	135,533	-	135,533	-
Accounts receivable	24,368	33,461	57,829	-
Due from other funds	102,154	12	102,166	6,705
Prepaid and other assets	<u>3,448</u>	<u>2,328</u>	<u>5,776</u>	<u>4,170</u>
Total current assets	484,884	38,118	523,002	137,912
NONCURRENT ASSETS				
Restricted assets	-	65,832	65,832	-
Capital assets, net of depreciation	<u>1,077,285</u>	<u>3,567,237</u>	<u>4,644,522</u>	<u>38,082</u>
Total noncurrent assets	<u>1,077,285</u>	<u>3,633,069</u>	<u>4,710,354</u>	<u>38,082</u>
Total assets	1,562,169	3,671,187	5,233,356	175,994
LIABILITIES				
CURRENT LIABILITIES				
Current portion of long-term debt	-	95,000	95,000	-
Accounts payable	-	-	-	-
Accrued and other liabilities	492	19,958	20,450	189
Due to other funds	<u>2,230</u>	<u>102,918</u>	<u>105,148</u>	<u>2,827</u>
Total current liabilities	2,722	217,876	220,598	3,016
NONCURRENT LIABILITIES				
Long-term debt, net of current portion	<u>-</u>	<u>2,103,655</u>	<u>2,103,655</u>	<u>-</u>
Total liabilities	<u>2,722</u>	<u>2,321,531</u>	<u>2,324,253</u>	<u>3,016</u>
NET ASSETS				
Invested in capital assets, net of related debt	1,077,285	1,368,582	2,445,867	38,082
Restricted for maintenance and repair	-	47,085	47,085	-
Restricted for debt service	-	18,747	18,747	-
Unrestricted	<u>482,162</u>	<u>(84,758)</u>	<u>397,404</u>	<u>134,896</u>
Total net assets	<u>\$1,559,447</u>	<u>\$1,349,656</u>	<u>\$2,909,103</u>	<u>\$ 172,978</u>

See accompanying notes to financial statements

**VILLAGE OF COLON
PROPRIETARY FUNDS
STATEMENT OF REVENUE, EXPENSES,
AND CHANGES IN NET ASSETS
YEAR ENDED MARCH 31, 2007**

	Sewage Disposal System Fund	Water Supply System Fund	Total	Motor Pool Internal Service Fund
OPERATING REVENUE				
Charges for services	\$ 154,522	\$ 235,626	\$ 390,148	\$ 68,056
OPERATING EXPENSES				
Operating and administrative	120,162	89,193	209,355	41,791
Depreciation	<u>90,491</u>	<u>154,844</u>	<u>245,335</u>	<u>24,432</u>
Total operating expenses	<u>210,653</u>	<u>244,037</u>	<u>454,690</u>	<u>66,223</u>
OPERATING INCOME (LOSS)	(56,131)	(8,411)	(64,542)	1,833
NONOPERATING REVENUE (EXPENSES)				
Rental income	8,000	13,879	21,879	-
Investment income	7,851	632	8,483	1,009
Other revenue	6,517	5,846	12,363	1,880
Interest expense	<u>-</u>	<u>(77,304)</u>	<u>(77,304)</u>	<u>-</u>
Total nonoperating revenue (expense)	<u>22,368</u>	<u>(56,947)</u>	<u>(34,579)</u>	<u>2,889</u>
CHANGE IN NET ASSETS	(33,763)	(65,358)	(99,121)	4,722
NET ASSETS - BEGINNING OF YEAR	<u>1,593,210</u>	<u>1,415,014</u>	<u>3,008,224</u>	<u>168,256</u>
NET ASSETS - ENDING OF YEAR	<u>\$1,559,447</u>	<u>\$1,349,656</u>	<u>\$2,909,103</u>	<u>\$ 172,978</u>

See accompanying notes to financial statements

**VILLAGE OF COLON
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2007**

	Sewage Disposal System Fund	Water Supply System Fund	Total	Motor Pool Internal Service Fund
Cash flows from operating activities				
Receipts from customers	\$ 153,999	\$ 238,248	\$ 392,247	\$ -
Receipts for internal services	-	-	-	68,056
Payments to employees and suppliers	(152,040)	(109,433)	(261,473)	(44,310)
Net cash provided (used) by operating activities	1,959	128,815	130,774	23,746
Cash flows from non-capital financing activities				
Other receipts	14,806	19,725	34,531	-
Cash flows from capital and related financing activities				
Principal paid on debt	-	(90,000)	(90,000)	-
Interest paid on debt	-	(77,560)	(77,560)	-
Acquisition of capital assets	-	-	-	(24,040)
Proceeds from sale of assets	-	-	-	1,880
Net cash provided (used) by capital and related financing activities	-	(167,560)	(167,560)	(22,160)
Cash flows from investing activities				
Interest received on investments	7,851	632	8,483	1,009
Purchase of investment	(5,272)	-	(5,272)	-
Net cash provided (used) by investing activities	2,579	632	3,211	1,009
Net increase (decrease) in cash	19,344	(18,388)	956	2,595
Cash and Cash Equivalents - Beginning of Year	200,037	86,537	286,574	124,442
Cash and Cash Equivalents - End of Year	<u>\$ 219,381</u>	<u>\$ 68,149</u>	<u>\$ 287,530</u>	<u>\$ 127,037</u>

See accompanying notes to financial statements

VILLAGE OF COLON
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS - Continued
YEAR ENDED MARCH 31, 2007

	Sewage Disposal System Fund	Water Supply System Fund	Total	Motor Pool Internal Service Fund
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities				
Operating income (loss)	\$ (56,131)	\$ (8,411)	\$ (64,542)	\$ 1,833
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities				
Depreciation	90,491	154,844	245,335	24,432
(Increase) decrease in:				
Accounts receivable	(523)	2,622	2,099	-
Other current assets	3	2	5	5
Due from other funds	(32,575)	(12)	(32,587)	(1,820)
Increase (decrease) in:				
Accounts payable	-	-	-	(4,057)
Accrued liabilities	(599)	35	(564)	189
Due to other funds	1,293	(20,265)	(18,972)	3,164
Net cash provided by (used for) operating activities	<u>\$ 1,959</u>	<u>\$ 128,815</u>	<u>\$ 130,774</u>	<u>\$ 23,746</u>

See accompanying notes to financial statements

VILLAGE OF COLON

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of Colon conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to villages. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB 20 and 34 provide the Village the option of electing to apply FASB pronouncements issued after November 30, 1989. The Village has elected not to apply those pronouncements. The more significant accounting policies establishing GAAP and used by the Village are discussed below.

Reporting Entity

The Village of Colon operates a Council-President form of government and provides the following services as authorized by its charter: public safety (police, fire and inspections), highways and streets, sanitation, parks and recreation, public improvements, planning and zoning, and general administrative services.

As required by generally accepted accounting principles, GASB 14, these financial statements present the Village (the primary government) and its component units, entities for which the Village is considered to be financially accountable. There are no component units to be included in these financial statements.

VILLAGE OF COLON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Accounting - Government-Wide Financial Statements - The statement of net assets and the statement of activities display information about the Village as a whole. They include all funds of the reporting entity except for fiduciary funds. These statements distinguish between activities that are governmental and those that are considered business-type activities. Internal service fund activity is eliminated to avoid "doubling-up" revenues and expenses.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in preparation of the proprietary fund financial statements but differs from the manner in which the governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each segment of the business-type activities of the Village and for each governmental and component unit program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Some functions, such as administrative and financial services include expenses that are, in essence, indirect expenses of other functions. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the Village.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

VILLAGE OF COLON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Accounting - Fund Financial Statements - Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. A fund is considered major if it is the primary operating fund of the Village or meets the following criteria:

- * Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- * Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.
- * Any fund the Village elects to include as a major fund.

Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

The Village reports the following major funds:

General Fund - The general fund is the general operating fund of the Village. The fund is used to account for all financial transactions except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state shared revenues and charges for services.

Special Revenue Funds

Major Street Fund - To account for gas and weight tax allocations to the Village by the Michigan Department of Transportation for construction and maintenance of major streets within the Village.

Local Street Fund - To account for gas and weight tax allocations to the Village by the Michigan Department of Transportation for construction and maintenance of local streets within the Village.

VILLAGE OF COLON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Enterprise Funds

Sewage Disposal System Fund - To account for user charges and for operating expenses and debt service of the Village's sewer system.

Water Supply System Fund - To account for user charges and for operating expenses and debt service of the Village's water system.

The following is a description of two major categories and various fund types within those categories into which the funds are grouped:

Governmental Fund - All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become susceptible to accrual (i.e., when they become both measurable and available). Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Revenue Recognition - "Measurable" means the amount of the transaction can be determined and "available" means collectable within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Village considers property taxes, special assessments, licenses, interest revenue and charges for sales and services as susceptible to accrual if the amount was due on or before fiscal year end and collection was within one year after year end except for property taxes for which collection must be within two months of year end. Reimbursements due for state and federally funded projects are accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made. All other revenue is recognized as payments are received.

Expenditure Recognition - The measurement focus of governmental accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt, which has not matured, are recognized when paid. Allocation of costs, such as depreciation and amortization, are not recognized in the governmental funds.

VILLAGE OF COLON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The following is a description of the governmental fund types of the Village:

General Fund - The general fund is the general operating fund of the Village. The fund is used to account for all financial transactions except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state shared revenues and charges for services.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments and major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

Proprietary Funds - All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds. Unbilled utility receivables are recorded at year end.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Village's enterprise funds are charges to customers for sales and services. The water and sewer funds also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses include the cost of sales and services, administrative costs and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

VILLAGE OF COLON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The following is a description of the proprietary fund types of the Village:

Enterprise Funds - Enterprise funds report operations that provide services which are financed primarily by user charges, or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control or other purposes.

Internal Service Funds - Internal service funds are used to record the financing of goods or services provided by the Village to other departments and funds or to other governmental units on a cost reimbursement basis.

Budgets and Budgetary Accounting - Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are legally adopted for the general and special revenue funds. The Village adopts its budget in accordance with Public Act 621, the Uniform Budgeting and Accounting Act, which mandates an annual budget process and an annual appropriation act to implement the budget. The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

- * On or about February 1, the Village President submits to the Village Council a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.
- * Public hearings are conducted to obtain taxpayer comments.
- * On or about April 1, the budget is legally enacted through passage of resolution.
- * The Village President is authorized to transfer budgeted amounts within departments.
- * The budget for the general fund and special revenue funds are adopted on a basis consistent with generally accepted accounting principles.
- * Appropriations for the general fund and special revenue funds lapse at the end of the fiscal year.
- * Budgeted amounts are as originally adopted or as amended by the Village Council.

VILLAGE OF COLON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Deposits and Investments - Statutes authorize the primary government and component units to invest in the following:

- * In bonds, securities and other obligations of the United States or agency or instrumentality of the United States.
- * In certificates of deposit, savings accounts, deposit accounts or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation, a saving and loan association which is a member of the Federal Savings and Loan Insurance Corporation or a credit union which is insured by the National Credit Union Administration.
- * In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.
- * In United States government of federal agency obligation repurchase agreements.
- * In banker's acceptances of United States banks.
- * In obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- * In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." All other outstanding balances between funds are reported as "due to/due from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances".

All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

VILLAGE OF COLON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Prepaid Items - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Capital Assets and Depreciation - Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost of purchase or construction. Contributed assets are recorded at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are also capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

	<u>Depreciable Life-Years</u>
Land improvements	15-40
Streets	15-20
Utility systems	30-50
Buildings and improvements	15-50
Machinery and equipment	5-20
Vehicles	2-7
Furniture and other	3-7

Long-Term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

VILLAGE OF COLON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Property Taxes - The Village's property taxes are levied as an enforceable lien on property as of December 1. Village taxes are levied on the following July 1 and are payable without penalty through September 16. Real property taxes not collected as of March 1 are turned over to St. Joseph County for collection. The County advances the Village 100% for delinquent real property taxes. Collection of delinquent personal property taxes remains the responsibility of the Village's treasurer. The Village's property taxes levied on July 1 provide the revenue for the current fiscal year.

The assessed and state equalized taxable value of real and personal property located in the Village totaled \$25,622,343. The Village's general operating levy for the year was based on a millage rate of 11.123.

Compensated Absences - It is the Village's policy to not pay for unused vacation or sick days and not to allow accumulation of unpaid days. Therefore, no current or long-term liability has been accrued.

Fund Equity - In the fund statements, reservations of fund balance represent amounts that are not available for appropriation or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

VILLAGE OF COLON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 2 - DEPOSITS AND INVESTMENTS

The Village's deposits and investments are included on the balance sheet under the following classifications:

	<u>Primary Government</u>
Statement of Net Assets:	
Cash and investments	\$ 753,621
Restricted assets	<u>65,832</u>
Total	<u>\$ 819,453</u>
Deposits and Investments:	
Bank deposits (checking accounts and savings accounts)	\$ 653,920
Certificates of deposit	<u>165,533</u>
Total	<u>\$ 819,453</u>

Deposits - The deposits of the Village were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at approximately \$859,830. Of that amount, approximately \$330,000 was covered by federal depository insurance and \$529,830 was uninsured and uncollateralized.

The Village believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Village evaluates each financial institution it deposits Village Funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

NOTE 3 - RECEIVABLES

Receivables in the governmental activities are 97 percent due from other governments, 2 percent accounts receivable, and 1 percent accrued interest receivable. Business-type activities receivables are 100 percent due from customers.

Accounts receivable in the governmental activities and the business-type activities are reported net of an allowance for uncollectible accounts of -0-.

VILLAGE OF COLON

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007**

NOTE 4 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables consisted of the following at March 31, 2007:

<u>Fund</u>	<u>Receivable</u>	<u>Fund</u>	<u>Payable</u>
<u>Due from/to other funds</u>			
General	\$ 4,254	Major Street	\$ 4
		Sewer	1,423
		Motor Pool	<u>2,827</u>
			4,254
Water	12	General	12
Sewer	102,154	Water	102,154
Motor Pool	6,705	Major Street	2,994
		Local Street	2,140
		Sewer	807
		Water	<u>764</u>
			6,705
Totals	<u>\$ 113,125</u>		<u>\$ 113,125</u>

The Due From/To Other Fund balances resulted from temporary loans to cover cash short falls in a given fund and from a time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Transfers consisted of the following for the year ended March 31, 2007:

<u>Fund</u>	<u>Transfers Out</u>	<u>Fund</u>	<u>Transfers In</u>
Major Street	<u>\$ 18,000</u>	Local Street	<u>\$ 18,000</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) the transfer from the major street fund to the local street fund represents the sharing of gas and weight tax revenues; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

VILLAGE OF COLON

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2007

NOTE 5 - CAPITAL ASSETS

Capital assets activity for the year ended March 31, 2007, was as follows:

	Balance April 1, 2006	Additions	Disposals	Balance March 31, 2007
<u>Primary Government</u>				
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 13,600	\$ -	\$ -	\$ 13,600
Capital assets, being depreciated:				
Buildings and improvements	95,263	-	-	95,263
Machinery and equipment	296,063	24,040	10,000	310,103
Vehicles	<u>59,437</u>	<u>-</u>	<u>-</u>	<u>59,437</u>
Subtotal	450,763	24,040	10,000	464,803
Accumulated depreciation				
Buildings and improvements	19,715	1,905	-	21,620
Machinery and equipment	257,590	24,431	10,000	272,021
Vehicles	<u>49,096</u>	<u>4,003</u>	<u>-</u>	<u>53,099</u>
Subtotal	<u>326,401</u>	<u>30,339</u>	<u>10,000</u>	<u>346,740</u>
Net capital assets being depreciated	<u>124,362</u>			<u>118,063</u>
Net capital assets	<u>\$ 137,962</u>			<u>\$ 131,663</u>

VILLAGE OF COLON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 5 - CAPITAL ASSETS - Continued

	Balance April 1, 2006	Additions	Disposals/ Transfers	Balance March 31, 2007
Business-Type activities				
Capital assets, not being depreciated:				
Land	\$ 38,841	\$ -	\$ -	\$ 38,841
Capital assets, being depreciated:				
Sewage disposal system	3,111,558	-	-	3,111,558
Water supply system	<u>4,431,858</u>	<u>-</u>	<u>-</u>	<u>4,431,858</u>
Subtotal	7,543,416	-	-	7,543,416
Accumulated depreciation				
Sewage disposal system	1,943,783	90,490	-	2,034,273
Water supply system	<u>748,619</u>	<u>154,844</u>	<u>-</u>	<u>903,463</u>
Subtotal	<u>2,692,402</u>	<u>245,334</u>	<u>-</u>	<u>2,937,736</u>
Net capital assets being depreciated	<u>4,851,014</u>			<u>4,605,680</u>
Net capital assets	<u>\$ 4,889,855</u>			<u>\$ 4,644,521</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:		Business-type activities:	
General government	\$ 418	Sanitary Sewer	\$ 90,490
Public safety	5,346	Water	<u>154,844</u>
Public works	<u>24,575</u>		
Total	<u>\$ 30,339</u>	Total	<u>\$ 245,334</u>

VILLAGE OF COLON

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2007

NOTE 6 - LONG-TERM DEBT

Following is a summary of long-term debt transactions for the year ended March 31, 2007:

	Balance April 1, 2006	Additions	Reductions	Balance March 31, 2007	Current Portion
Governmental Activities					
Note payable	\$ 31,834	\$ -	\$ 7,409	\$ 24,425	\$ 7,768
Note payable	<u>65,132</u>	<u>-</u>	<u>1,499</u>	<u>63,633</u>	<u>1,770</u>
	96,966	-	8,908	88,058	9,538
Business-Type Activities					
Revenue bonds	775,000	-	10,000	765,000	10,000
Revenue bonds	<u>1,513,655</u>	<u>-</u>	<u>80,000</u>	<u>1,433,655</u>	<u>85,000</u>
	<u>2,288,655</u>	<u>-</u>	<u>90,000</u>	<u>2,198,655</u>	<u>95,000</u>
Total Primary Government Long-Term Debt	<u>\$ 2,385,621</u>	<u>\$ -</u>	<u>\$ 98,908</u>	<u>\$ 2,286,713</u>	<u>\$ 104,538</u>

Long-term debt payables at March 31, 2007, consisted of the following individual issues:

Governmental Activities

Note payable to bank, yearly payments of \$8,892, including interest at 4.60%, final payment December 1, 2009, secured by fire truck \$ 24,425

Note payable to bank, monthly payments of \$365 including interest at 4.75%, until January 11, 2007. Monthly payments of \$451 including interest at 5.80% after January 11, 2007, final payment of \$54,235 due January 26, 2012, secured by real estate 63,633

Total Governmental Activities \$ 88,058

Business-Type Activities

2000 Water Supply System USA Revenue Bonds approved in the amount of \$805,000, payable in annual installments of \$5,000 to \$45,000 beginning October 1, 2001 through October 1, 2040, interest at 5.125%, payable semi-annually \$ 765,000

VILLAGE OF COLON

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007**

NOTE 6 - LONG-TERM DEBT - Continued

2000 Water Supply System DWRP Revenue Bonds approved in the amount of \$2,085,000, payable in annual installments of \$80,000 to \$130,000 beginning April 1, 2004 through April 1, 2022, interest at 2.5%, payable semi-annually	<u>1,433,655</u>
Total Business-Type Activities	<u>2,198,655</u>
Total Primary Government Long-Term Debt	<u><u>\$ 2,286,713</u></u>

Debt Service Requirements

The annual requirements to service all debt outstanding as of March 31, 2007, including both principal and interest, are as follows:

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 9,540	\$ 4,768	\$ 14,308
2009	10,003	4,305	14,308
2010	10,513	3,819	14,332
2011	2,105	3,309	5,414
2012	<u>55,897</u>	<u>2,662</u>	<u>58,559</u>
Total	<u>\$ 88,058</u>	<u>\$ 18,863</u>	<u>\$ 106,921</u>

	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 95,000	\$ 75,048	\$ 170,048
2009	95,000	72,410	167,410
2010	100,000	69,773	169,773
2011	100,000	67,010	167,010
2012	105,000	64,248	169,248
2013-2017	575,000	276,544	851,544
2018-2022	553,655	190,397	744,052
2023-2027	105,000	137,094	242,094
2028-2032	135,000	107,369	242,369
2033-2037	165,000	69,700	234,700
2038-2040	<u>170,000</u>	<u>22,295</u>	<u>192,295</u>
Total	<u>\$ 2,198,655</u>	<u>\$ 1,151,888</u>	<u>\$ 3,350,543</u>

VILLAGE OF COLON

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007**

NOTE 7 - RISK MANAGEMENT

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Village has purchased commercial insurance for most risks of loss to which it is exposed. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 8 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The annual budget is prepared by the Village President and adopted by the Village Council; subsequent amendments are approved by the Village Council. Unexpended appropriations lapse at year-end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with generally accepted accounting principles.

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated. The approved budgets of the Village were adopted on a fund level basis.

During the year ended March 31, 2007, the Village incurred expenditures in excess of the amounts appropriated at the legal level of budgetary control as follows:

NONE

NOTE 9 - RELATED PARTY TRANSACTIONS

The Village purchases fuel, oil, etc. from a service station owned by the Village President. The total purchases for the year ended March 31, 2007 were \$16,440. At March 31, 2007 accounts payable to the service station was \$1,534.

NOTE 10- RETIREMENT PLAN

Effective January 1, 2001, the Village established a defined contribution retirement plan. Effective January 1, 2006, the Village changed the retirement plan to a IRC Section 457 Deferred Compensation Plan. All employees are eligible after the second year of employment. The Village contributes 6 percent of the employees' compensation for the plan year while the employee is a participant. For the year ended March 31, 2007, pension expense was \$8,061.

REQUIRED SUPPLEMENTAL INFORMATION

VILLAGE OF COLON

REQUIRED SUPPLEMENTAL INFORMATION

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

YEAR ENDED MARCH 31, 2007

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
REVENUES				
Taxes	\$ 299,975	\$ 299,975	\$ 366,371	\$ 66,396
Licenses and permits	7,600	7,600	9,209	1,609
State grants	128,970	128,970	120,446	(8,524)
Charges for services	58,445	58,445	51,582	(6,863)
Fines and forfeitures	2,250	2,250	6,209	3,959
Interest	1,355	1,355	3,554	2,199
Other	300	300	13,395	13,095
Total revenues	498,895	498,895	570,766	71,871
EXPENDITURES				
Legislative	17,428	17,428	26,535	(9,107)
General government	51,900	51,900	47,660	4,240
Public safety	301,386	302,527	293,819	8,708
Public works	149,010	149,010	148,718	292
Health and welfare	6,600	6,600	6,600	-
Recreation and cultural	2,969	2,969	1,874	1,095
Debt service	12,700	12,700	13,259	(559)
Total expenditures	541,993	543,134	538,465	4,669
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(43,098)	(44,239)	32,301	76,540
FUND BALANCE - Beginning of year	176,157	176,157	176,157	-
FUND BALANCE - End of year	\$ 133,059	\$ 131,918	\$ 208,458	\$ 76,540

VILLAGE OF COLON
REQUIRED SUPPLEMENTAL INFORMATION
MAJOR STREET FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED MARCH 31, 2007

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
REVENUE				
State grant	\$ 68,600	\$ 68,600	\$ 66,302	\$ (2,298)
Interest	325	325	503	178
Other	<u>5,700</u>	<u>5,700</u>	<u>7,503</u>	<u>1,803</u>
Total revenues	74,625	74,625	74,308	(317)
EXPENDITURES				
Public works	<u>97,721</u>	<u>97,721</u>	<u>85,128</u>	<u>12,593</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(23,096)	(23,096)	(10,820)	12,276
OTHER FINANCING (USES)				
Transfer to other funds	<u>(18,000)</u>	<u>(18,000)</u>	<u>(18,000)</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES AND OTHER USES	(41,096)	(41,096)	(28,820)	12,276
FUND BALANCE - BEGINNING OF YEAR	<u>75,481</u>	<u>75,481</u>	<u>75,481</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 34,385</u>	<u>\$ 34,385</u>	<u>\$ 46,661</u>	<u>\$ 12,276</u>

VILLAGE OF COLON

REQUIRED SUPPLEMENTAL INFORMATION
LOCAL STREET FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED MARCH 31, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
REVENUE				
State grant	\$ 32,000	\$ 32,000	\$ 31,401	\$ (599)
Interest	350	350	229	(121)
Other	<u>3,750</u>	<u>3,750</u>	<u>5,020</u>	<u>1,270</u>
Total revenues	36,100	36,100	36,650	550
EXPENDITURES				
Public works	<u>84,570</u>	<u>84,570</u>	<u>49,235</u>	<u>35,335</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(48,470)	(48,470)	(12,585)	35,885
OTHER FINANCING SOURCES				
Transfers from other funds	<u>18,000</u>	<u>18,000</u>	<u>18,000</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES	(30,470)	(30,470)	5,415	35,885
FUND BALANCE - BEGINNING OF YEAR	<u>49,361</u>	<u>49,361</u>	<u>49,361</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 18,891</u>	<u>\$ 18,891</u>	<u>\$ 54,776</u>	<u>\$ 35,885</u>



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Members of the Village Council
Village of Colon

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Colon (the "Village"), as of and for the year ended ended March 31, 2007, which collectively comprise the Village's basic financial statements and have issued our report thereon dated July 10, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting - In planning and performing our audit, we considered the Village's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting. These deficiencies are referenced as 2007-1 and 2007-2.

Donald L. Paulsen, CPA
Patrick J. Monahan, CPA
Bruce S. A. Gosling, CPA
Michael R. Wilson, CPA
Rick L. Strawsar, CPA
Jerrold T. Norman (1941-1982)

Finding 2007-1: Management is unable to produce financial statements in accordance with accounting principles generally accepted in the United States of America.

Response: Due primarily to the related negative impact on cash funds available to the Village, the hiring of accounting personnel capable of writing the Village's financial statements and footnotes in accordance with accounting principles generally accepted in the United States of America is cost prohibitive.

The Village's response to the findings identified in our audit is described above. We did not audit the Village's response and, accordingly, we express no opinion on it.

Finding 2007-2: Lack of segregation of duties exists in the accounting function due to the limited number of accounting personnel.

Response: As noted above, due to decreased cash flows of the Village, management is unable to employ the number of accounting personnel to attain an adequate separation of duties between management functions, accounting functions and custody of the Village's assets. To the extent possible, duties are allocated between accounting personnel to mitigate risk of material misappropriation of assets. In addition, the Village Council assumes a higher level of oversight responsibilities to mitigate risks related to this lack of segregation of duties.

The Village's response to the findings identified in our audit is described above. We did not audit the Village's response and, accordingly, we express no opinion on it.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Finding 2007-1 and Finding 2007-2 to be a material weakness.

Compliance and Other Matters - As part of obtaining reasonable assurance about whether Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. These instances are referenced as 2007-A.

Finding 2007-A: The Water Fund Bond Agreement requires the establishment and funding levels for the Bond Reserve and the Repair, Replacement and Improvement Fund. Funding level requirements are not currently being achieved and the Village is not in compliance with the Bond Agreement.

Response: Village Management is reviewing the water rate structure to determine what changes can be made in order to generate the cash flow needed to fund the Bond Reserve and the Repair, Replacement and Improvement Fund.

The Village's response to the findings identified in our audit is described above. We did not audit the Village's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management, others within the organization, the Village Council and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

July 10, 2007

Norman J. Paulson, P.C.